

CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

Independent Auditor's Report

COMPLIANCE AUDIT OF THE SAFE DRINKING WATER STATE REVOLVING FUND

For the Fiscal Year Ended June 30, 2012



JOHN CHIANG
California State Controller

March 2013



JOHN CHIANG
California State Controller

March 28, 2013

Ron Chapman, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

Dear Dr. Chapman:

The following is the report on the compliance audit for the California Department of Public Health's Safe Drinking Water State Revolving Fund for the fiscal year ended June 30, 2012.

Our audit disclosed that the department complied, in all material respects, with the compliance requirements of the Safe Drinking Water State Revolving Fund that could have a direct and material effect on the fund for the year ended June 30, 2012.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

Attachment

cc: Kathleen Billingsley, RN, Chief Deputy Director of Policy and Programs
California Department of Public Health (via e-mail)
Daniel Kim, Chief Deputy Director of Operations
California Department of Public Health (via e-mail)
Alan Lum, Deputy Director–Administration
California Department of Public Health (via e-mail)
Annemarie Reno, Chief of Accounting
California Department of Public Health (via e-mail)
Mark Starr, Deputy Director, Center for Environmental Health
California Department of Public Health (via e-mail)
Leah Walker, Division Chief, Drinking Water and Environmental Management
California Department of Public Health (via e-mail)
Addie Aguirre, Chief, Infrastructure Funding Administration Section
California Department of Public Health (via e-mail)
William Young, Chief, Internal Audits
California Department of Public Health (via e-mail)

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the California Department of Public Health's Safe Drinking Water State Revolving Fund with the types of compliance requirements described in the U.S. Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Safe Drinking Water State Revolving Fund program for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its program is the responsibility of the department's management. Our responsibility is to express an opinion on the Safe Drinking Water State Revolving Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Safe Drinking Water State Revolving Fund program occurred. An audit includes examining, on a test basis, evidence about Safe Drinking Water State Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Safe Drinking Water State Revolving Fund's compliance with those requirements.

In our opinion, the department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Safe Drinking Water State Revolving Fund for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal program. In planning and performing our audit, we considered the department's internal control over compliance with the requirements that could have a direct and material effect on the federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Safe Drinking Water Revolving Fund, and have issued our report thereon dated February 1, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Safe Drinking Water State Revolving Fund's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of department management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 28, 2013

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

SECTION I—Summary of Auditor's Results

1. The auditor's report dated February 1, 2013, expresses an unqualified opinion on the financial statements of California Department of Public Health's Safe Drinking Water State Revolving Fund (SDWRF).
2. No significant deficiencies relating to the audit of the financial statements are reported in the financial statement audit of the SDWSRF for the fiscal years ended June 30, 2012 and 2011.
3. No instances of noncompliance material to the financial statements of SDWSRF were disclosed during the audit.
4. No significant deficiencies relating to the audit of the federal award program are reported.
5. The auditor's report on compliance for the major federal award program for the SDWSRF expresses an unqualified opinion.
6. The SDWSRF has only one federal program that was tested as a major federal program.
7. The SDWSRF was determined to be a high-risk auditee.

SECTION II—Financial Statement Findings

No findings were noted.

SECTION III—Federal Award Findings and Questioned Costs

No findings were noted.

Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Federal Agency/Program Title	Federal Catalog Number	Federal Expenditures
U.S. Environmental Protection Agency:		
Capitalization Grants for Safe Drinking Water State Revolving Fund	66.468	\$ 189,900,539
ARRA-Capitalization Grants for Safe Drinking Water State Revolving Fund	66.468	<u>46,549,229</u>
Total		<u>\$ 236,449,768</u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

NOTE 1— BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal Capitalization Grants for the Safe Drinking Water State Revolving Fund grant activity of the California Department of Public Health. The schedule is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE 2— LOANS TO SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the department disbursed \$177,673,924 in loan proceeds to subrecipients in the current year.

Summary Schedule of Prior Audit Finding Year Ended June 30, 2012

Finding 2011-1: Unallowable payroll expenses

Environmental Protection Agency, Safe Drinking Water State Revolving Fund (SDWSRF), CFDA 66.468, Grant No. FA 98934909 (Grant Year 2009)

Condition

The Safe Drinking Water State Revolving Fund Program (SDWSRF) provides water system supports and engineering services to various water systems throughout California. The program is funded by state appropriations, federal grants, and water systems that are charged a fee for the services rendered by the program. The Program employees account for the time they spend providing services to each water system using timesheets. The Program then enters the time into the California Department of Public Health (CDPH) time-accounting system. CDPH's time-accounting system is used to report expenses for the SDWSRF grant and to capture billable hours for services rendered to the water systems. CDPH used two different time accounting output reports in the preparation of local water system invoices and federal grant requests, and as a result, some of the employee hours charged to the SDWSRF federal grant were also billed to the water systems. By billing both the federal grant and the water systems, CDPH received revenue twice for the same expenditure.

Recommendation

The CDPH should ensure that payroll hours billed to the water systems are not included as SDWSRF payroll expenditures. Correction of this problem will likely require reprogramming the time-accounting system. Although timesheets are properly reviewed by supervisors, CDPH should reinstitute the internal control procedures of reviewing payroll expenditures charged to the SDWSRF program.

Current Status

CDPH agrees that payroll hours billed to the water system should not be included as SDWSRF payroll expenditures. Correcting this problem will require reprogramming the time accounting system (TAS). CDPH has corrected this problem by reprogramming TAS. CDPH has implemented an internal control policy. The appropriate staffs have been trained in the review process and have the skills to ensure this does not occur in the future. Payroll expenditures for SDWSRF are reviewed on a monthly basis to ensure the internal control process is operating effectively. To ensure that billable hours are accounted for correctly, on a quarterly basis, CDPH completes a random sample of timesheets to reconcile the adjustments with TAS as well as to ensure the internal control process is operating efficiently.

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